

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF LOUISVILLE GAS |) | |
| AND ELECTRIC COMPANY FOR THE SIX-MONTH |) | CASE NO. |
| BILLING PERIOD ENDING OCTOBER 31, 2006 |) | 2007-00380 |
| AND FOR THE TWO-YEAR BILLING PERIOD |) | |
| ENDING APRIL 30, 2007 |) | |

O R D E R

On April 6, 1995, the Commission approved Louisville Gas and Electric Company's ("LG&E") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at 6-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At 2-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

¹ Case No. 1994-00332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated April 6, 1995.

The Commission has determined that it will be administratively efficient and reasonable to review the pending 6-month period and the 2-year period in the same case. Therefore, the Commission hereby initiates the 6-month review of the surcharge as billed from May 1, 2006 to October 31, 2006 and the 2-year review of the surcharge as billed from May 1, 2005 to April 30, 2007.²

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, LG&E is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time periods under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, LG&E is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, LG&E has sought and been granted four amendments to its original

² Since LG&E's surcharge is billed on a two-month lag, the amounts billed from May 2006 through October 2006 are based on costs incurred from March 2006 through August 2006 and amounts billed from May 2005 through April 2007 are based on costs incurred from March 2005 through February 2007.

environmental compliance plan and surcharge mechanism.³ In Case No. 2002-00193,⁴ LG&E's surcharge mechanism was changed from the incremental approach to the base-current approach and a portion of the environmental surcharge was incorporated, or "rolled-in," to existing base rates. In Case Nos. 2003-00433 and 2006-00130,⁵ the capital expenditures and operating expenses associated with the original environmental compliance plan were rolled-in to LG&E's base rates. After this last roll-in, the environmental surcharge provides recovery of the costs associated with the four amended environmental compliance plans. When determining its over- or under-recovery of the surcharge in this proceeding, LG&E should reflect the impacts of these prior cases, as applicable.

³ See Case No. 2000-00386, The Application of Louisville Gas and Electric Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff, final Order dated April 18, 2001; Case No. 2002-00147, The Application of Louisville Gas and Electric Company for Approval of Its 2002 Compliance Plan for Recovery by Environmental Surcharge, final Order dated February 11, 2003; Case No. 2004-00421, The Application of Louisville Gas and Electric Company for Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge, final Order dated June 20, 2005; and Case No. 2006-00208, The Application of Louisville Gas and Electric Company for Approval of Its 2006 Compliance Plan for Recovery by Environmental Surcharge, final Order dated December 21, 2006.

⁴ Case No. 2002-00193, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001, final Order dated October 22, 2002.

⁵ Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, final Order dated June 30, 2004 and Case No. 2006-00130, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending October 31, 2003, April 30, 2004, October 31, 2004, October 31, 2005, and April 30, 2006, and for the Two-Year Billing Period Ending April 30, 2005, final Order dated January 31, 2007.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. LG&E shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from (a) May 1, 2006 through October 31, 2006 and (b) May 1, 2005 through April 30, 2007. At the public hearing there shall be no opening statements or summaries of testimony.

3. LG&E shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the two periods under review.

4. Any party filing testimony shall file an original and 10 copies.

5. a. The information requested herein is due on or before October 17, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and 7 copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within 7 days of the Commission granting intervention to a party, LG&E shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

7. LG&E's monthly environmental surcharge reports and supporting data for the review periods shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 1994-00332, 2000-00386, 2002-00147, 2002-00193, 2003-00433, 2004-00421, and 2006-00208 shall be incorporated by reference into the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 19th day of September, 2007.

By the Commission

Commissioner Clark Abstains

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00380 DATED September 19, 2007

LG&E shall file its prepared direct testimony and
responses to the information requested in
Appendix B no later than 10/17/07

An informal technical conference is to begin at 1:30 p.m.,
Eastern Daylight Time, in Conference Room No. 1 of the
Commission's offices at 211 Sower Boulevard,
Frankfort, Kentucky for the discussion of issues 10/24/07

All additional requests for information to LG&E shall
be filed no later than 10/31/07

LG&E shall file responses to additional requests for
information no later than 11/14/07

Intervenor testimony, if any, in verified prepared form
shall be filed no later than 11/30/07

All requests for information to Intervenors shall be
filed no later than 12/14/07

Intervenors shall file responses to requests for
information no later than 01/04/08

Last day for LG&E to publish notice of hearing date To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern
Standard Time, in Hearing Room 1 of the Commission's
offices at 211 Sower Boulevard, Frankfort, Kentucky,
for the purpose of cross-examination of witnesses of
LG&E and Intervenors To be scheduled

Briefs, if any, shall be filed by To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00380 DATED September 19, 2007

DATA REQUEST TO LOUISVILLE GAS AND ELECTRIC COMPANY

For Each of the Six Periods Under Review

1. Concerning the rate of return on the original environmental compliance plan ("1995 Plan") and the three amendments to the environmental compliance plan ("Post-1995 Plans"), provide the following information for each of the billing periods under review:

a. For the 1995 Plan, calculate any true-up adjustment needed to recognize changes in the weighted average cost of LG&E's pollution control debt during the applicable months of each review period. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

b. For the Post-1995 Plans, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's electric capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings LG&E has submitted during the billing periods under review. Include a calculation of any additional over- or under-recovery amount LG&E believes needs to be recognized for the 6-month review or the 2-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during each billing period under review for Pollution Control Deferred Income Taxes.

4. Provide the percentage of LG&E's long-term debt that has a variable interest rate as of the last expense month in the applicable billing period under review.

Billing Period from May 1, 2006 through October 31, 2006

5. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March through August 2006 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the total expense levels from month to month if that change is greater than plus or minus 10 percent.

Billing Period from May 1, 2005 through April 30, 2007

6. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the September 2006 through February 2007 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the total expense levels from month to month if that change is greater than plus or minus 10 percent.

7. In Case No. 2006-00130, the Commission determined an overall rate of return on capital that included a rate of return on common equity for the environmental surcharge of 10.5 percent. The Commission also found that the rate of return on common equity used in the determination of the overall rate of return on capital should be examined as part of the 2-year surcharge review proceeding.

a. Does LG&E believe that the 10.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If no to part (a), what rate of return on common equity does LG&E propose for its environmental surcharge? Provide a detailed analysis and testimony supporting LG&E's position.

8. KRS 278.183(3) provides that during the 2-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that LG&E believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into LG&E's base rates. Include any analysis that LG&E believes supports its position.

c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, workpapers, and assumptions.

d. Does LG&E believe that there will need to be modifications to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into LG&E's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

9. In Case No. 2000-00386, the Commission ordered that LG&E's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of February 28, 2007:

a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and electric operations bases.

b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and electric operations bases.

c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.

10. In its January 31, 2007 Order in Case No. 2006-00130, the Commission noted LG&E's efforts at identifying and resolving internal issues related to the preparation of the monthly surcharge filings. Provide a status report on LG&E's efforts to submit the most accurate and timely information available in its monthly surcharge reports.